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THE *REAL* ART OF THE DEAL

How Trammell Crow Built the World's Largest Real Estate Empire

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PAGE 46

The Company That Money Almost Killed

PAGE 64

Myths and Realities of Day Care

PAGE 161

Renegotiating Your Bank Loan

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CONTENTS

FEATURES

28 FACE-TO-FACE
The Thinking Man's CEO
How George Hatsopoulos's everyday approach to management has enabled his company to discover one new business after another

48 **The Company Money Almost Killed** *BY EDWARD O. WELLES*
One CEO's struggle against a culture of excess

64 OWNER'S MANUAL
Bringing Up Baby *BY ELLEN WOJAHN*
The myths and realities of day care

78 INC. COVER STORY
The Real Art of the Deal *BY NELSON W. ALDRICH JR.*
How Trammell Crow built the world's largest real-estate empire one handshake at a time

93 **Britain's New Generation of Company Builders** *BY JAY FINEGAN*
If you doubt the role government can play in shaping an economic climate, you need look no further than Thatcher's Great Britain

103 **Blowout** *BY JOSHUA HYATT*
When David Carmell bought Consumers Tire, its biggest liability was one that never showed up in the financials

COLUMNS

23 **The New Economy:** Prematurely Gray? *BY DAVID L. BIRCH*
Critics say the U.S. high-technology industry is threatened by too much entrepreneurship. Statistics suggest there's not enough

151 **Marketing:** Plan B. *BY PAUL B. BROWN*
What are the three things that matter most when you're selling into a tough market? Position, position, position

155 **Managing Technology:** Fax Finding. *BY CARY LU*
What to look for in a facsimile machine

161 **Capital:** How to Renegotiate Your Loan. *BY ROBERT A. MAMIS*
A spate of successful lender-liability suits has made banks more receptive to well-reasoned proposals from struggling borrowers

167 **Managing People:** Getting to Know You. *BY JAMES E. BERNSTEIN, M.D.*
How to get your people working as a team

171 **The Law:** Every Breath You Take. *BY MARISA MANLEY*
Indoor air pollution can pose serious health problems for your employees—and serious legal problems for you

173 **Taxes:** Borrowing from Your Company. *BY IRVING L. BLACKMAN*
. . . plus travel deductions, interest deductions, and a tax on retained earnings

DEPARTMENTS

9 **Letters:** The high price of charity; the truth about survival rates; and Tom Peters on innovation

14 **Insider:** Go Video; Ronstadt's Financials; What Japan is buying

148 **Hands On:** Marketing to big companies; health insurance discounts; setting personal goals

183 **Investing in Growth Companies**

INC. COVER STORY

78 Trammell Crow
Building an empire of partnerships

64 Bringing Up Baby
The myths and realities of day care

103 David Carmell
Living through a company buyer's nightmare

COVER PHOTOGRAPH
by
Dudley Reed/Onyx

PREMATURELY GRAY?

Critics say the U.S. high-technology industry is threatened by too much entrepreneurship. Statistics suggest there's not enough

BY DAVID L. BIRCH

There is a stereotype of high-tech companies—particularly the venture capital–backed, glamorously "entrepreneurial" sort.

In the stereotypical characterization, the average high-tech business is just one of a thousand small companies that spin off from universities or larger companies to capitalize on some sort of breakthrough—a new drug or a new chip design, say. It's a risky business, the stereotype suggests. A few high-tech companies make it, and make it big. The rest quickly fade away, most dying at an early age. The companies that do survive go through steep ups and downs as they gain (or lose) their competitive edge. Or so goes the stereotype, anyway.

Some have argued recently that the description is accurate and the process corrosive. They say that the thousands of start-ups steal vital talent from larger, more viable companies, making it virtually impossible for the large companies to compete effectively with their massive Japanese counterparts.

We cannot, it is claimed, compete effectively in world markets if we permit our technology base to fracture into thousands of inefficient operations. We must institute a way to stamp out this fracturing by sharply increasing the capital-gains tax—thereby erasing the investment appeal of speculative and irresponsible venture formation.

What *are* the facts about high-tech companies?

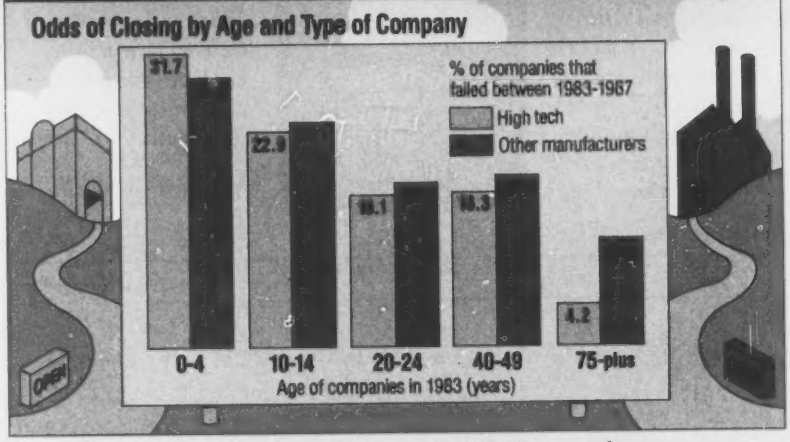
Well, one aspect of the stereotype holds up. High-tech businesses do tend to get bigger faster than most other companies. By the end of their first five years, high-tech companies are nearly twice as likely as other manufacturers (14.4% versus 7.7%) to have more than 50 employees. Only 51.5% of five-year-old high-tech companies employ fewer than 10 people; 65.4% of other manufacturers do. It's little wonder that venture capitalists find them attractive.

But that's where the stereotype fails. There are other reasons the venture capitalists love high tech: it's neither particularly risky nor particularly volatile. With the exception of the very youngest, high-tech companies are systematically the manufacturing enterprises *least* likely to go out of business (see figure 1). And even the youngest ones are only slightly more vulnerable.

Employees in high-tech companies are only marginally more likely to be bounced around than are people working for other manufacturers. We read so often about high-tech expansions and layoffs that it's not difficult to conclude it's a boom-or-bust part of the economy. Not particularly. The whole economy experiences big ups and downs, and high tech is not particularly unusual in this regard.

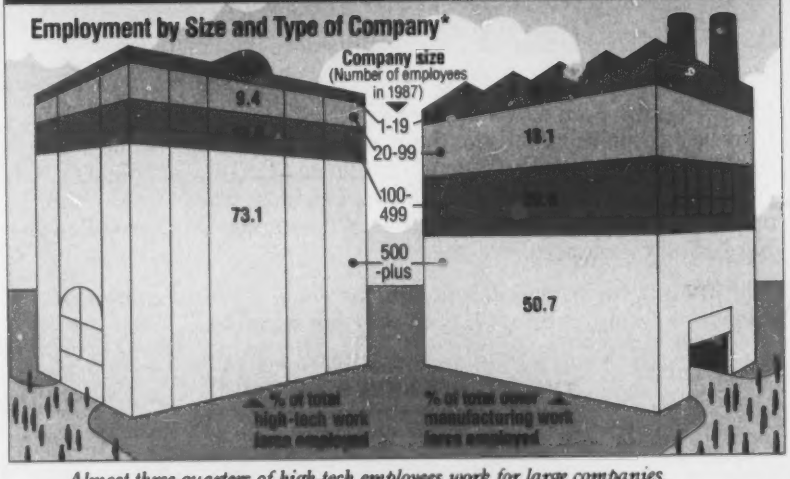
Most surprising to the uninitiated is the prevalence of big companies in high tech-

FIGURE 1
A Not So Risky Business



As the selected examples show, high tech outsurvives other manufacturers.
Contrary to stereotypes, high-tech failure rates are low.

FIGURE 2
Playing a Big-Company Game



Almost three-quarters of high-tech employees work for large companies.
High tech is one of the most concentrated sectors in the U.S. economy.

CHARTS: DAVID HERBICK

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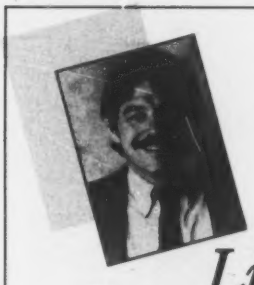

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THE NEW ECONOMY

nology. Only 4% of the people who work in high tech work for the small, struggling companies so often romanticized (versus 10% for other manufacturers—see figure 2). Conversely, almost three-quarters of all high-tech employees work for large companies with more than 500 employees (versus 51% for other manufacturers). High tech is one of the most concentrated sectors of the U.S. economy—only slightly less concentrated in large companies than are the makers of cars and planes (78%, as opposed to 73% for high tech), and significantly more concentrated than the steel business (66% versus 73%). Virtually no one works for the smaller spin-offs struggling in garages.

In sum, high tech looks much more like a mature sector than an embryonic one. It has relatively low failure rates, average volatility, and employs an extremely high percentage of its workers in a fairly few large companies.

In this context, it is difficult—if not impossible—to understand the argument that entrepreneurship is killing our technology base by draining vast amounts of talent into thousands of smaller, inefficient enterprises. Very few industry sectors in our economy have a larger share of their workers in large companies and a smaller share in small ones.

The discovery that high technology is mature and ordinary rather than boisterous and extraordinary does not, and should not, diminish its importance to the economy. High tech is to today's economy what the steam engine was to the nineteenth century's. Very few jobs were created by manufacturing steam engines. Very few small companies manufactured them. Their importance flowed not from their construction, but from what they made possible after they were constructed.

Similarly, the huge surge of job growth we have experienced in this decade, and are likely to experience in the decades ahead, is based in large measure on what can be done with technology. It is technology's application, not its construction, that fuels the New Economy.

If anything, we should be concerned with how few people work for smaller, innovative technology inventors, not how many. It may be that our technology sector is maturing too fast for its own good, squeezing out the very kind of entrepreneur that developed the technology giants of today from infant companies started as recently as a decade or two ago. □

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

OWNER'S MANUAL

BRINGING UP BABY

The myths and realities of day care

BY ELLEN WOJAHN

HAVING A FAMILY, SAID COMEDIAN MARTIN MULL, IS like "having a bowling alley installed in your brain." Nowhere do the pins clatter louder than at work, where the kids may be out of sight, but never out of their parents' worried minds. Are the little ones getting along OK? What if they are too sick for day care, or the sitter quits—*again*?

For most employed parents, peace of mind comes with high-quality, dependable child care that they can afford. Unfortunately, given the long waiting lists, the high turnover rate among providers, and a weekly bill that tops $100 in major cities, parents are rolling more gutter balls than strikes in that game. Many families, in fact, aren't sure from one week to the next who will be taking care of the kids.

All these concerns affect the way a person works. Count the ways: the days that begin late and end early, the lack of concentration, the frequent phone calls home, the dubious sick days. What's more, it's no longer uncommon to see mothers *and* fathers turning down promotions when job and parental responsibilities clash. Lack of child care is a major culprit in perennial management problems such as retention, recruiting, and absenteeism.

Smart companies know: day care pays off.
A boost to productivity—and peace of mind

Few companies are untouched by child-care difficulties. Those that feel they can ignore the problem may not be able to do so for long; tight labor markets predicted for the years ahead may stimulate many more companies to offer child care as part of their strategy to recruit and retain female employees. Already a tiny cadre of small companies is tackling the issue head-on. Among them:

Integrated Genetics Inc., with its associated venture, Gene-Trak Systems, a $12-million biotechnology business in Framingham, Mass., offers an information and referral service to employees in need of child care.

Group 243 Inc., an advertising agency based in Ann Arbor, Mich., administers a plan that enables employees to pay their child-care costs with pretax dollars. It also sponsors an on-site child-care center.

Perkins Geddis Eastman, an architecture firm in New York City, is liberal in its use of flexible work schedules and parental leaves.

Tempting as it may be, don't write these companies off as social crusaders or do-gooders. In reality, adding child-care assistance is a strategic decision, and companies make it for the same reason they might choose to offer stock options, profit-sharing plans, or other incentives: a significant payoff exists for the company. They are convinced that child-care assistance makes for more loyal, more reliable, and more productive employees.

That's not to say they didn't take a show-me attitude in the beginning: did their employees really need child-care assistance, or was the company merely being sucked into another fringe-benefit fad? Was child-care assistance affordable? Would it cause liability problems? Would it tangle the company in bureaucratic or internal red tape? And how would nonparents react to it?

These companies satisfied themselves that while little about child-care assistance comes easily or cheaply, most of the pitfalls associated with it are either exaggerations or outright myths.

How do companies make a decision like this one? "I guess you make it the same way you make any big decision," says Larry Taylor, vice-president of Taylor Corp., a company in the printing business that has had an on-site child-care center for nearly 10 years. "Is the problem costing us employees? Is it making it hard to get them? I mean, would it be good business? That's always going to be the bottom line, isn't it?"

Few aspects of managing a business have developed as negative a mythology as child-care assistance. But when you examine the myths one by one, you get a different picture.

▶ STORY PROPOSAL ◀

Few aspects of managing a business have developed as negative a mythology as child care. Critics say that it costs too much, is difficult to administer, and is fraught with liability problems. Some of the smartest companies around manage to provide some form of child-care assistance—and they're boosting productivity and making recruiting and retaining easier. Let's take a look at what happens when you deal with this issue—possibly the benefit of the '90s—the way you would stock options, profit sharing, or any other incentive. —E. W.

PHOTOGRAPH: MARK ALCAREZ

MYTH 1

We don't need it.

Chances are, you do—now, or you will in the future.

Gone forever is the time when parental worries were left at home with the wife and children. Today, less than 10% of American households fit the Ozzie-and-Harriet, Ward-and-June image that many of us outdatedly consider a "normal" family. Increasingly common: two-thirds of married couples with children have two-paycheck households, and 25% of children live in single-parent households.

Indeed, women have filled some 60% of the new jobs created since the 1970s. In small business, the proportion of women in companies of fewer than 100 employees was at 44% in 1983. Sixty-seven percent of the jobs created from 1988 through 1995 will be filled by women. Demographers say that 80% of these women will become pregnant sometime in their working lives. In a sharp departure from past decades, when pregnancy ended careers, economic necessity will keep most of these women working. That's why the fastest-growing segment of the work force, now and for the foreseeable future, is mothers of young children. Already, two-thirds of women with children under three years old hold full-time jobs.

What's more, as the baby-bust generation comes of age, employers will face a shrinking labor pool and greater competition for workers. How to expand the pool? A 1982 Census Bureau survey revealed that 26% of nonworking mothers with young children say they would look for work if reasonably priced child care were available.

The overall aging of the U.S. work force is already creating tight hiring conditions in some regions and industries. Princeton University demographer Thomas Espenshade believes the worst is yet to come: "In the not-too-distant future, employers are going to find themselves in a zero-sum game, competing for the few good employees that will be out there. Many of them are going to have to increase their total benefits packages to attract and retain workers, and I think employer-sponsored child care is going to be particularly attractive."

Don't write child care off as a women's issue, though. In a recent survey of parents of children under the age of two, 89% of women and 62% of men reported work-related child-care problems.

The need for child-care assistance is so great that it promises to become a major political issue in the 1990s. Already Congress has before it more than 100 bills that could have some impact on child care.

MYTH 2

Child-care assistance means an on-site center.

Companies actually have many alternatives to providing on-site day care. And even the simplest plan can be a tremendous help to employees with kids. Here are the plans most often pursued by small companies:

☐ providing information and

Perkins Geddis Eastman

THE FLEXTIME STRATEGY

Money isn't the issue. The architects, interior designers, and staff at Perkins Geddis Eastman, in New York City, can afford to buy quality child care, if they want it. No, what the parents in this 50-employee firm want is time to provide their *own* child care. That's why the firm offers both male and female parental leaves, followed up with a flexible work policy that allows them to work one or two days a week at home, just to ease the transition.

The policy was established when the firm was launched in 1982, a year before any babies came on the scene. "We were looking for stability," recalls partner Barbara Geddis. "We know how demanding the profession can be. The typical attitude in this business is, 'Having a baby? Well, come back in three years when you're done.' " Geddis and her partners thought it important to do what they could from the start to hang onto their senior employees and let them use their time more flexibly for both work and child rearing. "We believe that, ideally, a person with a child should be a parent," Geddis says.

Architect Amy D. Stein, with son Peter
Flexible hours at home or at the office

The first three employees to take advantage of the flexible workweek were men. All three took unpaid, three-week paternity leaves and, for about a year after that, worked out of their homes at will. As women began starting families, the policy was modified to allow for longer leaves. "We've found women seem to need more time off, at least in the beginning," explains Geddis. "Probably six months totally off, and a year after that in some sort of flex."

The evolution continues. "Now, as the kids get to be two, three years old, and new people start families, we see people wanting their flexibility in different ways," Geddis explains. "They want flexible hours instead of days, and they want to know they can bring the child to work if they need to."

Geddis admits that accommodation has had its consequences. A few clients, for example, have been momentarily irritated to find that their architect is at home with the baby. It can be inconvenient for co-workers, too, who sometimes have to take up the slack in order to get work out on time.

"The people who have chosen the three- or four-day option effectively put their careers—well, not on hold, because their careers didn't stand still, but they certainly froze their responsibilities," says Geddis. "That was acknowledged ahead of time, and it's had some impact on salary negotiations." But there have been no gripes. "Most of these people are '80s couples with mutual commitments. They're doing what they want, and they're accepting the consequences."

Revenues: $5 million
Employees: 50
Employees affected: 12
Annual cost: NA
Start-up cost: NA

PHOTOGRAPH: PETER VIDOR

Grieco Bros. Inc.

THE PARTNERSHIP STRATEGY

How do you attract and retain $8.75-an-hour garment workers when labor is a seller's market? That was the problem facing Tony Sapienza, vice-president of manufacturing at Grieco Bros. Inc., makers of Southwick brand men's clothing, when the economic boom hit eastern Massachusetts in 1984. If he didn't come up with something, the 59-year-old factory in Lawrence would be forced to shut down.

Child care made sense. Seventy-five percent of his work force was female. With $50,000 of Grieco family money in hand, Sapienza set out to establish an on-site center.

V-P Tony Sapienza
On-site care, thanks to state aid

It wasn't long before Sapienza realized he would need to at least double his capital. He cajoled another nearby mill, Polo Clothing Corp., to sign on with a contribution of $20,000. Foundations kicked in $20,000. The Lawrence city council coughed up $10,000. Still, it was not enough to cover renovation costs. Where would the operating monies come from? And could they find some deep pockets to defray the workers' $120 weekly fees?

Sapienza consulted Ed Clark, regional vice-president of the Amalgamated Clothing & Textiles Workers Union, who agreed to champion a per-employee contribution of 1¢ per hour. That added up to $21,000 a year. "Older employees and some of the immigrants said they had done without child care, [so] why couldn't today's young people?" Clark recalls. "But less than 1% of the 600 people voted against it."

Next, Sapienza hammered out a plan whereby the center would be run independently, by Grieco's predominantly Hispanic work force, as a minority-owned and -operated enterprise. Then Michael S. Dukakis's administration agreed to subsidize low- and moderate-income parents' fees totaling $298,287 per year. A subsequent low-interest start-up loan of $30,000 from the Massachusetts Industrial Finance Agency put the project "over the top," Sapienza says.

The center opened for business in January 1986. By Sapienza's measures, the program is a success, showing that management and labor can cooperate on shared goals.

Clark agrees. "Grieco did this with not entirely altruistic motives; we saw an opportunity to improve our lot. We got good results because both sides wanted it and needed it."

Sapienza hopes that onlookers come away with the lesson that child care need not be a white-collar, rich-company phenomenon. "Anyone can raise the start-up money if they try."

Operating funds are another story, however. Sapienza acknowledges that state support was critical. "The state spent $110 million on child care last year. Other states don't spend like that. But, of course, they're probably wondering why their welfare recipients won't go back to work."

Revenues: NA
Employees: 800
Employees affected: 55
Annual cost: $50,000
Start-up cost: $50,000

referral services that guide parents to high-quality care available in the community;

☐ offering flexible work schedules that allow parents to match their hours to their babysitters' schedules;

☐ establishing an IRS-approved plan enabling employees to pay for child care with their pretax earnings;

☐ subsidizing the cost of child care either directly (through a voucher system that pays a set percentage of the bill) or indirectly (through a plan that may or may not be tied to the benefits package);

☐ establishing on- or near-site child-care centers on their own, or with other companies.

Companies should begin their consideration of day-care assistance by conducting a careful needs audit. But don't simply round up the preschoolers' parents and ask them for their child-care preferences. Focus on what's happening right now—where the family lives; the kids' ages; the problems their parents are having with child care; the number of different child-care arrangements made each week; and in some detail, how the family is coping with child-care needs before school, after school, in the summer, and when the kids are sick.

During the study, try not to build false expectations by mentioning services you know the company can't or won't deliver. And don't ask how much the parent would be willing to pay for child care. "If the answers come back 'five bucks a week,' well, you asked!" says Phoenix-based consultant Nadine Mathis. But do include nonparents in the survey—they may know better than anyone how child-care problems affect morale and productivity in the work force.

What percentage of employees can you expect to participate in the day-care plan? From 5% to 10% participation is considered normal, 20% very good.

Only after the survey are you in a position to figure out what sort of child-care assistance—if any—is necessary. Would your company benefit from an on-site child-care center, or would your employees be grateful merely for help in finding quality care in your community? Do employees need help paying for child care? Or would they prefer a more flexible work schedule that might allow them to take on more of their children's care themselves?

MYTH 3

We can't afford it.

It's true that on-site child care can be expensive. But the alternatives—the various reimbursement plans, information and referral services, and the flextime approach—cost surprisingly little, either in time or money.

The cost of resource and referral programs vary with the size of your organization and the contractor you choose. Integrated Genetics, in Framingham, Mass., is paying a mere $3,500 per year for its program, assuming 6% usage on the part of 300 employees. For that fee, the company receives access to 1,300 child-care providers plus parental seminars four times a year.

A dependent-care assistance program, enabling employees to set aside pretax dollars to pay for child care, cost Group 243 only normal fees for bookkeeping changes the first year. "There's a nominal cost in the first year, because you're setting aside salary dollars for your employees," says senior vice-president of corporate administration Carey Ferchland. "After that, there's really nothing to it either financially or logistically—there's just a ceiling [the maximum amount the employee can withhold] to keep an eye on."

On-site child care is far more expensive, of course. Companies typically subsidize part of the costs of the center rather than the entire cost. Group 243

PHOTOGRAPH: MARK ALCAREZ

Taylor Corp.

ENABLING WOMEN TO ADVANCE

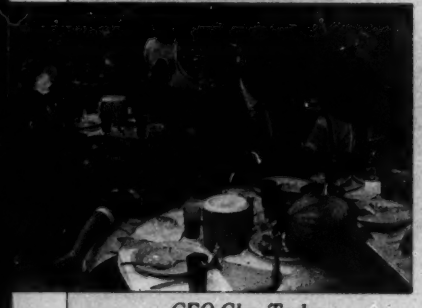
Nancy Schwamberger's husband died six years ago, leaving her with two boys to raise—one age four, the other a preemie with respiratory problems.

Without her employer's on-site child-care center, Schwamberger would have been unable to maintain a full-time schedule and would have had to give up her financial independence. She certainly couldn't have risen to the position she holds today, staff accountant for Taylor Corp., a printing business in North Mankato, Minn. After all, you just don't find child care to cover a six-day, 47-hour floating schedule like hers.

Shauna Brignac, a married mother of three, is another satisfied parent. "In the past, I spent my days worrying and feeling distracted," says Brignac. "I'm sure it affected my job performance. Now, I don't think about the kids all day, probably, unless I'm afraid Rebecca, who's still in diapers, is getting sick. Even then, all I have to do is pick up the phone and say, 'Can I have a report on Rebecca?' "

Taylor Corp. owner and CEO, state senator Glen Taylor, is a major advocate of child-care assistance. He and his brother, Larry Taylor, established the center in 1979, when the company was a 1,000-employee operation in the midst of a growth spurt.

Back then, Glen Taylor recalls, the company was having trouble recruiting and retaining workers. It couldn't assure parents of finding child care in the area. Things had gotten so bad, in fact, that even veteran employees were turning down promotions, fearing that the extra responsibility might complicate their already tenuous babysitting arrangements. When a supervisor named Jean Andersen told the Taylors that her two-year-old had gone through four babysitters in a matter of a few months, they urged her to begin putting together a case for on-site child care.



CEO Glen Taylor
Overhead is high, but recruiting easier

Taylor invested $400,000 into the construction of a cottage that houses the center, and it subsidizes care at $1,000 per child—or about $140,000 per year. That's a big overhead item, but recruiting, promoting, and retaining workers—especially women—has become easier.

Meanwhile, Glen Taylor is pushing legislation that would give tax credits to companies that establish an assistance plan. If passed, it would be the most ambitious set of child-care incentives in the nation. "As long as business needs employees, and as long as women need to work but can't without adequate child-care options, a problem exists. If we want to keep women in the work force, off public assistance, and, most important, if we want them to advance, we have to recognize the problem that's holding them back. It's lack of child care."

Revenues: $200 million +
Employees: 5,000 total; 2,200 local
Employees affected: 140
Annual cost: $140,000
Start-up cost: $400,000

subsidizes $50,000 of its center's $100,000 to $200,000 program. Taylor Corp. chips in $1,000 per child, or about 40% of operating cost.

Perhaps the smallest company offering subsidized on-site child care is Oliver Wight Cos., a 24-employee management consulting firm in Essex Junction, Vt. It subsidizes more than 50% of the cost of operating its center for 11 children. But the company doesn't find it an outlandish figure. "It's less than it costs to hire one good executive," says benefits administrator Debbie Peck.

MYTH 4

We won't get much back for all the expense and trouble.

You can't take the benefits of child care to the bank. Most of them aren't easily measured. Still, a whopping 95% of the companies responding to a 1984 survey said the benefits of their child-care programs outweighed the costs.

To what extent, however, most companies don't know. "You want to reduce it to dollars and cents?" asks an incredulous Larry Taylor. "Foolishness. There are too many variables to get an accurate measurement. But we see the benefit in positive employee feedback, parental peace of mind, a more dependable work force, improvements in recruitment and retention, and higher numbers of women in management. These are the things that make it worthwhile for us."

To that list add good public relations, says Group 243's Carey Ferchland. "We've gotten at least one major advertising contract out of this, not to mention headlines in publications we normally couldn't have dreamed of getting into at our age," she says.

Many of the companies that INC. interviewed believed it would be possible to run their on-site child care centers in the black. They simply choose not to. "I think I could run ours at breakeven," ventures Ferchland, "but it would mean lower salaries, greater staff turnover, worse staff-child ratios, and in general, a lower-quality program. And that's not what we want."

MYTH 5

We're too small and understaffed.

You don't need a mature organization with a full-fledged personnel department to run a program. For example, resource and referral plans are well within the grasp of most small companies. You can contract for the service or work with church and community leaders to compile a list of your own.

Any of the reimbursement options can be easily handled by a staff accountant, or contracted out to a bookkeeping firm. One such option enables employees to pay for child care with pretax dollars. "It's so easy to set up," says Ferchland. "You just get the IRS to bless it, and then attach it to your accounting and paperwork function."

Flexible work schedules,

PHOTOGRAPH: ROB JOHNSON

Countdown to Start-up

PERCEPTRONICS INC.

Mid-November, 1987: The wags at Perceptronics Inc., a maker of military training devices, say it must be in the water—how else could they explain the spate of new babies? Devra Weltman, then working as an internal auditor, recalls that chief financial officer David P. Nelson had once raised the possibility of adding some sort of child-care assistance to the benefits package. Nothing came of it. Weltman, finishing up her undergraduate studies and eager to carve a role for herself at the Woodland Hills, Calif., company, brings the idea to her father, CEO Gershon Weltman, who greets it with interest. Devra tells personnel to put her on the routing list for anything related to child-care assistance. She also begins sending for books and pamphlets.

December: The word is out, and women are telling Weltman that nothing short of an on-site center will do; child care is difficult to find in Greater Los Angeles, they say. An expectant mother stops into Weltman's office to urge Devra on. "If you *don't* get us this child-care center, and soon," she says, teasingly, "this baby's going to end up in your office!"

Devra Weltman of Perceptronics, and 'co-worker'
Still searching for a workable child-care program

January 1988: Weltman makes her first semiformal pitch to Nelson and president Amos Freedy. "We're losing people," she says. "One woman took on a consulting contract for a while after she adopted a child, but now she's not working for us at all. Maybe we could have kept her if we'd had something to offer her." Nelson and Freedy free Devra from her duties to delve into the research. Weltman begins visiting child-care centers.

January 29: Weltman meets with Sandy Burud, president of Summa Associates Inc., a Pasadena, Calif.-based consulting firm. Burud agrees to help Perceptronics choose a child-care assistance program. That includes helping conduct a needs assessment and later, helping with construction, licensing, staffing, marketing, maybe even operation. Burud says an on-site center for a company the size of Perceptronics should accommodate about 30 children, or about 10% of the work force. She says a September 1988 opening date is not only feasible, but desirable: parents are most receptive to changing their child-care arrangements at the beginning of a school year.

But the big topic is liability. Burud assures Weltman that Perceptronics need not worry: insurance coverage will cost $150 to $180 per child, or, in this case, about $5,000 a year. Afterward, Weltman reports to Nelson, who agrees that "liability won't be the swing issue" on a go/no-go decision. "It'll rest on the cost-benefit analysis."

February: Weltman's on the road again, touring various child-care centers. She's begun thinking about space. Because Perceptronics rents facilities in a cluster of three buildings, she will not only have to select an area that is suitable to the company and the state regulators—who require 35 square feet per child inside and 75 out—but also acceptable to the building owners. Late in the month, Burud appoints colleague Choral Nasser Brown to handle the project.

Early March: Weltman and Brown meet and agree to a two-step plan: first the development of a sample budget, followed by a needs-assessment survey of the work force. "Let's hope it shows us whether child care will help us recruit and reduce absenteeism—and gives us some idea of how it will affect things we can't measure, like morale and productivity," Nelson says. Before the the month is two-thirds gone, Brown produces the budget. Lots of figures are soft, but she tells Perceptronics to expect an annual operating subsidy of up to $2,000 per child. Weltman discusses the budget with Nelson, who is now more explicit about his concerns. "As a defense contractor, we're going to have to be sure this won't jeopardize our profits. And I'm going to have to look at how other government contractors are dealing with this. I'm not against pioneering, but if nobody else is doing this, I think we ought to examine why."

Late March: The pace quickens. After another round of visits to day-care centers, Weltman selects an architect. She touches base with the building owner again, this time to obtain blueprints to show the architect, and to discuss the possibility of turning part of a parking lot into a playground. To Weltman's pleasure, he is completely supportive. A week later, Weltman meets with the architect, who asks questions she can't easily answer. Will this be a structured program, or will the kids determine their own activities? She'll have to decide these things before he can design the structure. Nonetheless, he says he can meet a September deadline.

April: Weltman and CFO Nelson distribute the needs-assessment survey. There's an air of excitement; Weltman finds herself reading through each survey as it is handed in, enjoying the many positive responses. Still, definitive results won't be available until the end of the month. Then, the company will either commit to child care or abandon the idea. "We're not going to dabble," Nelson tells her. "We're not going to commit blindly, either. But if everything continues to look positive, we'll go forward. And if we go, we're really gonna go."

May: The numbers are crunched. Encouraging as the results had seemed initially, Weltman and Nelson decide that establishing an independently operated center is not wise. "Disappointing as it is," says Weltman, "I've got to be realistic. We're going to have a bit of a baby boom in five years, but going ahead now is a little too much for us to handle."

August: Weltman remains on the stump for child care, but now she's lobbying neighboring companies that might want to invest jointly in a program. "We hope to have something concrete put together before the end of the year." And remember the woman who jokingly threatened to drop her little one in Devra's lap if something weren't done to alleviate her child-care problem? "The baby spent most of the summer in my office," says Weltman, laughing. □

Revenues: $38.4 million
Employees: 350
Employees affected: 30*
Annual cost: $60,000*
Start-up cost: $90,000*
*Estimated

PHOTOGRAPH: DAVID STRICK/ONYX

which are a major help to parents, are already offered by many companies as part of their general workstyle. Parental-leave policies may require a bit of fancy footwork, but they too prove manageable even in start-up companies. In fact, many companies find that flexible scheduling allows them to expand their business day, and companies that institute job-sharing programs enjoy the peace of mind of knowing that each shared position has its own back-up in the event of illness or attrition.

Although few small companies want to go this far, even running a child-care center may not be out of the question. Oliver Wight Cos. built child-care space into its new building when it outgrew its facilities (in the president's house) seven years ago. Today the center serves 11 children from seven families.

MYTH 6

Liability exposure is too big a risk for us.

There has not been a successful liability case against a corporate-sponsored child-care center, as far as can be determined. And, according to sources at San Francisco's Child Care Law Center, there is virtually no liability exposure in corporate subsidy of employees' child-care costs.

A company can provide some protection for its assets by establishing a separate division to operate an on-site center and by subcontracting for referral services. Above all, be sure you get some insurance—it's cheaper and easier to obtain than you might think.

Insurance carriers are generally willing to write policies that cover corporate child-care centers. The cost? At $2,000 to $7,000 per year for an enrollment of approximately 30 children, most companies find the premiums reasonable. Another insurance break comes by way of an Austin firm, Human Services Risk Managment, that offers a course in liability loss control. Several insurers provide incentives to companies that complete this training.

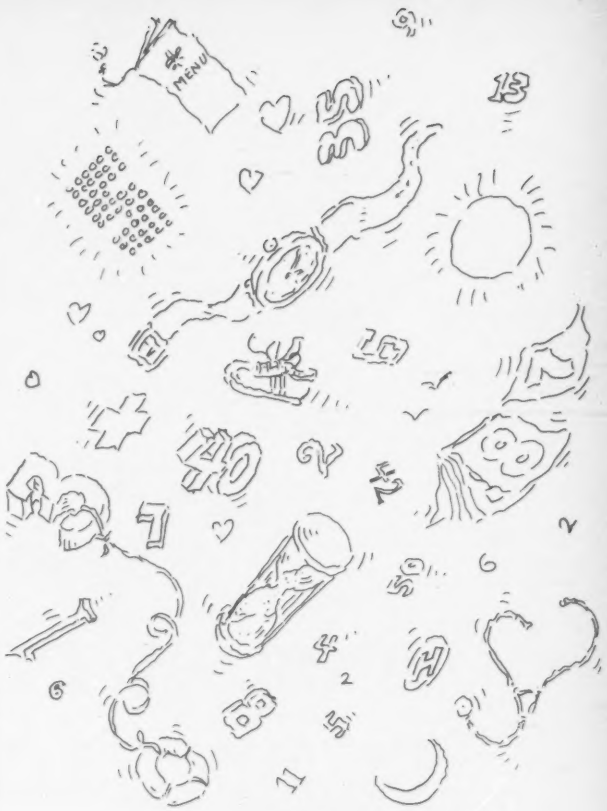
MYTH 7

It's not fair to employees without children.

Surprisingly, consultants say they've encountered few examples of resistance from employees without children to corporate child-care assistance programs. Studies report that nonparents show little or no resentment about their employers' child-care programs.

Still, keep in mind that no employee benefit is going to be universally equitable, and that corporate child-care assistance will help reduce absenteeism, turnover, and recruitment problems—all of which burden nonparent employees from time to time. □

Ellen Wojahn is a Boston-based writer. Her most recent book is Playing by Different Rules *(Amacom), about the failed merger of Parker Brothers and General Mills.*



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The number we're talking about is your cholesterol number. If it's high, you may be at risk for a heart attack. Without even knowing it.

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National Cholesterol Education Program.
National Heart, Lung and Blood Institute.

National Institutes of Health, Public Health Service, U.S. Department of Health and Human Services

HANDS ON

A Manager's Notebook

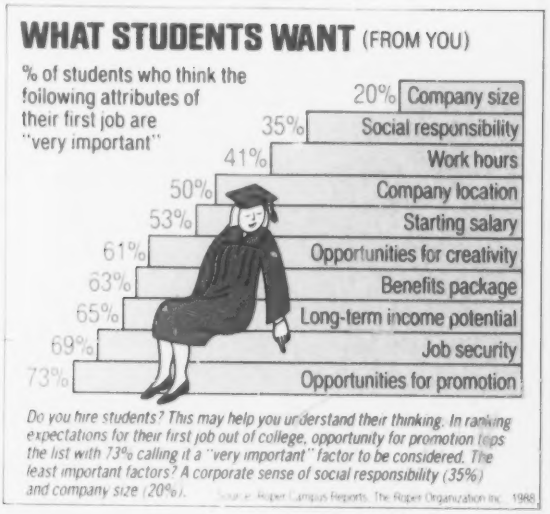
FINANCE

SWAPPING STATEMENTS

It's never easy to figure out which customers will pay your bills and which ones won't. However, Rick Johnson, CEO of BarJon Steel Service Center Inc., in Springboro, Ohio, has a strategy that helps. Whenever possible, he judges the creditworthiness of major prospective customers by examining their financial statements. How does he get to see them? By forking over BarJon's financials first.

"Usually, a company doesn't like to share numbers with suppliers," Johnson says. "Showing them ours makes it easier for them to show us theirs. They see we have loans to pay just like they do."

Johnson argues that the rewards far outweigh the risks of sharing statements. "Our numbers aren't going to tell our competition how to do anything. The risk is small compared with the benefit of finding out if the company we want to do business with is on solid ground." And, he says, financials are much more current than the traditional credit check.


WHAT STUDENTS WANT (FROM YOU)
% of students who think the following attributes of their first job are "very important"
20% Company size
35% Social responsibility
41% Work hours
50% Company location
53% Starting salary
61% Opportunities for creativity
63% Benefits package
65% Long-term income potential
69% Job security
73% Opportunities for promotion
Do you hire students? This may help you understand their thinking. In ranking expectations for their first job out of college, opportunity for promotion tops the list with 73% calling it a "very important" factor to be considered. The least important factors? A corporate sense of social responsibility (35%) and company size (20%).
Source: Roper Campus Reports, The Roper Organization Inc., 1988

COMPENSATION

BOOSTING PRODUCTIVITY, AND QUALITY TOO

While piecework payment systems can go far toward boosting productivity, too many CEOs have seen them lower quality at the same time. Does that mean piecework has to go?

Walter Riley, CEO of G.O.D. Inc., a Kearny, N.J., overnight express freight service, doesn't think so. Riley, whose business depends on speed, has kept his piecework program, but he has added incentives that specifically encourage quality.

Four years ago, Riley took his freight dock loaders off hourly wage scales and paid them for each shipment handled. Freight loss and breakage became epidemic. "All of a sudden, there were problems all over the place. This system just sped them up. The dock loaders thought, 'If there are mistakes, there are mistakes.'" So Riley changed the system: on top of the shipment rate, freight loaders get weekly bonuses of 25% of their total week's earnings if all shipments go through with no breakage, misloading, or short cartons. For a dock worker earning $600 per week, that means an additional $150. Some 85% of dock workers meet the weekly bonus requirements. Plus, dock loaders now double as critical quality checks throughout the whole freight-hauling operation, improving companywide productivity as well.

INSURANCE

THE REWARDS OF CLEAN LIVING

Taking a beating from rising health-care premiums? A cure may be in sight. An increasing number of insurers are offering plans providing hefty discounts to small companies that can show that their employees follow good health practices.

The Prudential, for example, will discount a health plan by up to 35% for companies with fewer than 500 employees. Each employee must complete a health and lifestyle questionnaire that asks about smoking, drinking, and eating habits. Whether a company qualifies for the discount—and by how much—is determined by the overall profile of the company's workers.

Another big insurer, The Travelers Cos., gives discounts of up to 13% for companies with 10 to 49 employees. And the John Alden Life Insurance Co. offers savings of up to 14% for companies with 25 or fewer workers; available now only in the South, the company plans to expand coverage early next year.

To encourage employees to adopt better personal-health practices, other insurers provide various educational materials and individual health-risk assessments. John Alden even offers toll-free telephone access to health-care professionals who will answer questions and refer callers to community resources and support groups.

PERSONNEL

CHECK IT OUT

Think you've finally found the perfect candidate to fill a position at your company? Be sure to check—and double-check—the information on the resume in front of you. There's a 30% chance that something will be wrong.

According to Barrick Security Group, a San Mateo, Calif., firm that does corporate investigative work, some of those job applicants exaggerate their work histories, and others make exaggerated education claims. About 3% omit criminal violations.

How can you improve your odds of getting the truth? Barrick president Barry Bergman advises managers to have applicants fill out a standard job form—which should include questions about criminal convictions—and to make it clear that responses will be checked. You don't need those riders in order to do a legal follow-up, he says, but "putting people on notice makes it less likely that a degree in political science will become an engineering degree, or that three months at a previous job will become three years." □

CHARTS: CYNTHIA DAVIS

HANDS ON

MARKETING

AN OPEN (AND PRETTY) BOOK

If you are trying to convince big-company executives that you're big enough for them to do business with, consider speaking their language—by producing a four-color, glossy annual report.

CEO Gordon Lankton publishes one even though Nypro Inc., his Clinton, Mass., plastic industrial components manufacturer, is privately held. "It puts us in a different category from the job shop down the street," he says. "Big-company executives can relate to it."

Worried about keeping an open set of books? Lankton has been sharing numbers with customers and suppliers for more than 20 years and claims there has never been a problem.

Funny thing is, Lankton says, it isn't the numbers that get a reader's attention—it's usually the pictures. Other companies' executives glance through the annual report and see the pretty pictures, but obviously don't read the financials.

"Nypro has conducted a number of acquisitions," says Lankton. "Sometimes we find that the people don't even read the numbers but are impressed that a private company would release them." In Nypro's case, the medium *is* the message. □

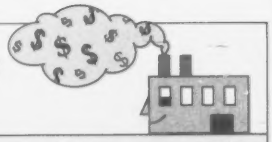
QUOTE OF THE MONTH

'We're little; they're IBM. We had to be faster. There are only two kinds of people who dance with elephants—the quick and the dead.'

—Mark Cuban, president of MicroSolutions Inc., a $10-million Dallas computer sales and support company whose responsiveness convinced Neiman Marcus to buy IBM PCs from MicroSolutions rather than from IBM itself

SNAPSHOT:

SMALL-COMPANY FINANCES



Company size ($ sales/year)	Avg. borrowings ($ thousands)	Avg. short-term investments ($ thousands)	Avg. cash balance ($ thousands)
$50 - 74 million	$5,000	$2,500	$900
$20 - 49 million	2,400	1,878	1,062
$10 - 19 million	1,057	727	446
$5 - 9 million	561	455	301

Numbers above reflect the results of two 1987 surveys by Greenwich Associates of more than 19,000 companies with annual sales of $5 million to $74 million.

RECRUITING

BRING YOUR FRIENDS TO WORK

Looking to cut both your recruiting costs and employee turnover? Maybe you should tap the folks who already make your company work—your employees.

At Integrated Microcomputer Systems Inc., a $20-million software development company in Rockville, Md., about 60% of its 400 workers have been hired through an employee referral program. The company's turnover rate is only 3%.

All jobs are posted at the company's seven client sites, and employees make referrals by filling out a standard form and attaching the applicant's résumé. If the applicant is hired and remains on board at least four months, the referring worker gets a bonus—from $300 (for administrative jobs) to $800 (for technical positions). The bonus for filling senior or skilled positions has been as generous as $1,000 and a personal computer.

Personnel specialist Tammy Besser says the program has made for a better work atmosphere. "People recommend people they want to work with, people they trust. Good employees tend to recommend people with similar characteristics." Relatives are especially welcome, as company president John Yeh's example attests. To date, he's hired three of his brothers, one sister, and two sisters-in-law. □

MANAGING PEOPLE

PERSONAL GOAL SETTING CAN MAKE A DIFFERENCE

Everyone knows that employees work better for bosses who care. But showing interest in people's nonbusiness lives—without appearing to intrude—can be tricky. However, at Computer Output Printing Inc. (COPI), a laser-printing business in Houston, CEO Andy Plata has an interesting approach. Every quarter, his 25 employees commit themselves to a set of objectives—and at least one of the goals must be purely personal.

The business objectives tend to be straightforward, says Plata—improving communications skills or learning how to operate a new piece of equipment, for example. But the personal goals are more diverse.

Recently, a few of Plata's employees said they wanted to slim down; another wanted to finish some home repairs; someone else wanted to help his child improve her grades. Over and above articulating their goals, employees are expected to set up steps for achieving them; progress is reviewed by a manager every 90 days.

The system has been in place for three years now, and Plata thinks it's made a difference in people's performance. "A lot of companies aren't interested in personal matters," he notes. "But we feel differently. When people feel successful in the rest of their lives, they're more apt to be successful in business." □

Reported by Leslie Brokaw, Teri Lammers, Martha E. Mangelsdorf, Bruce G. Posner, and Stephen D. Solomon

HOW TO RENEGOTIATE YOUR LOAN

A spate of successful lender-liability suits has made banks more receptive to well-reasoned proposals from struggling borrowers

BY ROBERT A. MAMIS

If there's a single thread that ran through Ronald O. Samarro's 25 years as a vice-president of banks, it's that the typical small-business borrower has little idea how to approach the typical small-business lender. Item: "A principal [behind on payments] would come in and dump a stack of papers half a foot high on my desk," Samarro recalls from tough tours of asset-based duty at such institutions as Irving Trust and Bankers Trust, "and then he'd stand there and say, 'Here's my company.' " "*I'm* supposed to do the spreadsheeting?" Samarro would complain.

His patience at last worn thin, Samarro departed the halls of lending (and of collecting) back in 1984 in order to help needy CEOs talk—and talk back to—bankers. Now, as president of Abbott Associates, a one-person (himself), five-computer loan arranger that services debt-plagued small businesses, he lectures to heads of $500,000- to $100-million companies seeking repair of loans: "Don't make the banker guess what you need; *tell* him what you need."

Speaking boldly is easy when you're Standard Oil, a lot harder when you're a $2.3-million company that failed to meet the covenants of a demand note on which $318,000 was outstanding—and which therefore was being demanded. The delinquency wasn't really his client's fault, Samarro told the lender. He explained that funds representing a $300,000 sale of nail-polish remover to Nigeria had been frozen due to a political squabble that nobody here could undo; therefore another $300,000 of customized inventory had to be written off as well—money that the company would have used to service the loan. That could happen to anybody, the bank concurred, agreeing to a six-month moratorium. With the bank's forbearance in hand, Samarro had time to soothe other creditors and bolster his client's rank in the cosmetics industry.

A few years back, that mission would have been impossible. Most banks with a troubled loan would have foreclosed, thrusting the debtor into liquidation. But a recent spate of successful lender-liability suits accusing banks of such self-concerned actions as wrongful termination and excessive control over borrowers has made lending institutions leery, lest even their shakiest customers turn around and bite the hand that stopped feeding them. Even if the covenants of a secured loan have been so severely violated that repayment has been judged hopeless, lenders remain open to propositions that will relieve them from pulling the chain.

Because judgments against them have reduced the communication of most bankers to a studied vagueness, the burden of specific solutions to a loan problem falls to the faltering business. All the better, since lender-liability leverage gives the business a good chance of prevailing. Bankers won't make trouble if the solution is handled right. Samarro's advice: "Prepare a formal business plan that you propose to operate under, so when you make the presentation it's crisp and makes sense."

TEN LARGEST VERDICTS, 1987*

Type of case	Verdict amount ($millions)
1. Lender liability	$129
2. Lender liability	105
3. Fraud in obtaining a loan	100
4. Product liability	95
5. Product liability	76
6. Breach of fiduciary duty or contract, fraud	70
7. Lender liability	60
8. Lender liability	59
9. Violation of state lending laws	53
10. Lender liability	50

*Single damages awarded by juries or judges, before any appeals or outside settlements.
Source: *Inside Litigation*, May 1988

Of the 10 largest verdicts in 1987, lender liability topped all categories, including product liability.

Unfortunately, small-business management may not have the internal expertise to determine which balance-sheet ratios are scaring the banker. Or it may be that the bank has become jittery over the level of trade debt the client is carrying, because it threatens its own ability to collect; of course, it doesn't dare say as much. The bewildered borrower is apt to interpret the downgrading of credit as a personal vendetta: I don't know why, but the guy just doesn't like me, so screw him *and* his bank. That, clearly, is the wrong approach. Better, Samarro's way: "Describe the situation honestly, seek their understanding, and ask them to cooperate."

When covenants start busting out all over, a banker's thoughts understandably turn to liquidation procedures. Action, not promises, is what counts now. "Go to bondholders and stockholders, and renegotiate the balance sheet. Set up a payment plan," Samarro urges, "and the bank will feel like continuing." Speed is crucial. The aim is to keep the operation going. More than once, Samarro has arrived on the scene after both the chief executive officer and his attorney had agreed that Chapter 11 was the only way out. But he showed them more palatable routes. A forbearance agreement from the lender and extended billing terms from suppliers, for example, often do the trick.

Obviously, the original financing package has to be scrapped, and a whole new deal constructed. The financial diagnosis of what ails the business and its recommended cure should be carefully printed and bound. There should be lots of charts and tables, accompanied by optimistic (but not unrealistic) commentary. "Then," says Samarro, "you've defused an alienated situation, and you've started to reestablish credibility with the bank."

A self-appraisal of company assets, for example, may disclose the possibility of remortgaging real estate. And if the bank will go along with allowing interest payments to be skipped until cash flow improves per projections, the *pro forma* future can be made to look a lot brighter. Indeed, new sources of funds may pop up. In one case, Samarro found an individual investor who was willing to participate in the loan with the bank when the bank refused to come up with all the needed funds. The bank was first secured lender, but, unsecured by assets, the outside co-lender was given warrants to take over the company if repayment came up short.

Samarro recommends projecting the components of assets month by month over the next three years—what accounts receivables are going to be, what the depreciated value of machinery and equipment will be, what comprises the customer list, what inventory consists of and how

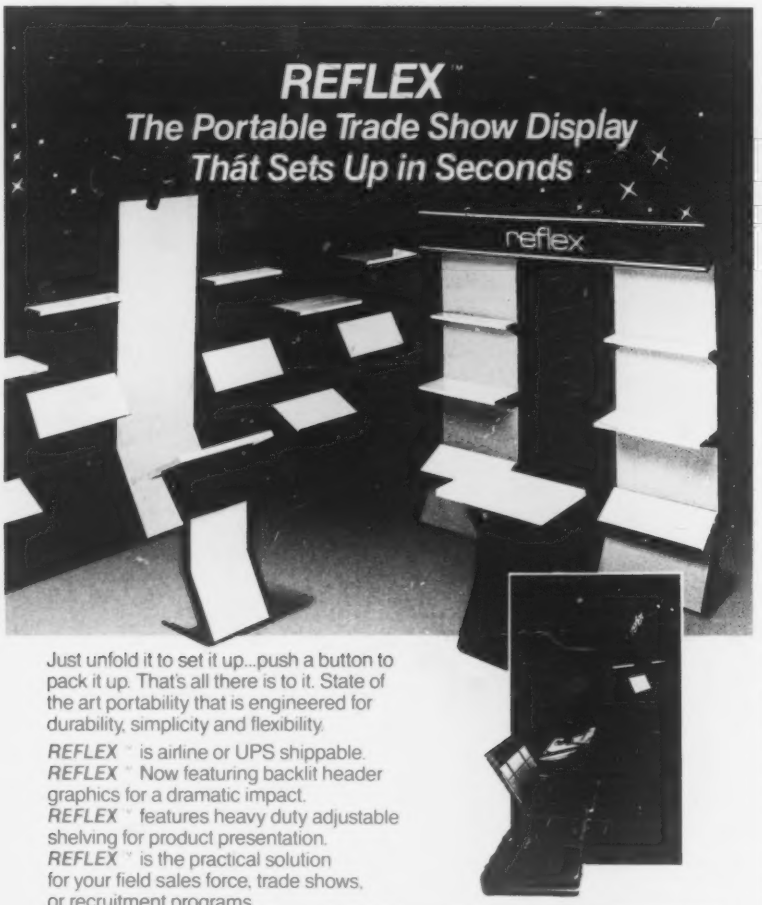
it breaks out by percentages, and so on. Then demonstrate in a cash-flow projection how the business is going to pay back not only the bank's loan, but every other creditor. By leaving no loan unturned, there's an implied obligation in so formal a presentation for the banker to respond with like alacrity. But don't trust the spoken word, warns Samarro. Put *everything* down on paper. "You can't rely on a banker to make his own interpretations. When he reports to his fellow bankers, he may not remember what you told him."

If the bank still threatens liquidation of the loan, implied meagerness of collection is always an effective forestalling tactic. It works not only among asset-based bankers, but with other aggrieved creditors as well. On behalf of a CEO who had misappropriated $750,000 of tax withholdings—a felony—Samarro was able to negotiate a five-year payback schedule with the Internal Revenue Service. "The IRS has little interest in pursuing an individual," he concludes. "Sure, they'll probably get their judgment, but then the poor guy will grow old and never pay. They're better off keeping the company alive and getting paid out of proceeds." When Samarro determined that a major reason why a company was having trouble servicing its debt was that it was being strangled by featherbedding, he put it to the union. "Here's your choice: either I close this place tomorrow and allow the bank to collect its money, or you get the extra men off the machines and let us live."

Oddly, the surfacing of a troubled obligation will occasionally call for a yet *larger* loan, rather than a schedule for reduction. "Give us more against what you've got," a bold CEO might plead of a secured lender selfishly tying up too much collateral. "You're asking me to hobble along with this piddling sum when you could restructure the loan and free me from creditors." In the light of lender liability, that plea is particularly telling, because if the company ultimately files for bankruptcy, it can sue the bank for sitting on an overabundance of collateral.

A banker may admit that the projections add up, but he just doesn't want to go along with the new deal. In which case, Samarro suggests, offer to find another lender to take out the loan-weary officer—but only if he promises to give you more time. Of course, you don't pay anything on the loan in the meantime. A *really* pushy borrower might even suggest that the banker write a bridge loan until the new lender comes on stream. If a take-out banker can't be found—indicating, of course, that the loan is questionable—try bargaining for forgiveness of part of the debt. "I might come back to that banker and say your judgment was right—you're in hot water," Samarro suggests. "The most I can raise on your collateral package is one-half the loan. If you forgive half, I'll give you half. Now isn't that better than liquidating? The problem could be there was too much debt to begin with. With the forgiveness of indebtedness, it's possible that the company can service the remainder and survive."

Not that asset-based lenders are apt to forget, Samarro says, but it can't hurt reminding a recalcitrant bank that come bankruptcy, "customers do not pay, inventory shrinks, liquidation values turn into a tenth of what they're represented to be, and you end up taking a *bigger* hit." At that stage, however, the odds drop considerably, since it's not apt to be the kindly loan officer who makes the decision, but the bank's workout unit—broadly perceived as a band of cutthroats whose sole pleasure in life comes in browbeating debtors. Once a loan-workouter himself,



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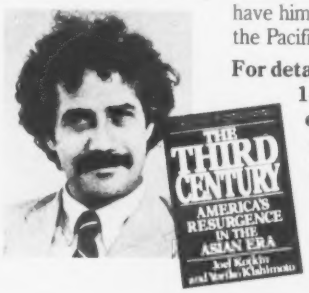
Cynics warn that American business is facing decline, but Joel Kotkin, co-author of *The Third Century: America's Resurgence in the Asian Era,* insists that our unique assets can help shape an industrial renaissance.

Kotkin, Inc.'s West Coast editor, offers a provocative rebuttal to predictions of economic doom. "Our wealth of resources, entrepreneurial drive and multi-ethnic labor force form the basis for a new American ascendency," says Kotkin.

Kotkin urges audiences to capitalize on these inherent strengths as America enters its "third century" of independence. You'll want to hear his views and have him answer your questions about meeting the Pacific Rim challenge.



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THE INC. SPEAKERS BUREAU

We're talking success

CATCHING UP

What to do with a seriously delinquent asset-based loan

Your strategy should be to come up with a *written* repayment plan—don't rely on verbal communication—that shows your bank it does not have to liquidate. Here are tips from ex-banker Ronald O. Samarro:

- **Explain what the problem is and spell out a solution. Quickly.**
- **Review your assets from the bank's point of view. Can real estate be remortgaged? Has accounts-receivable turnover improved?**
- **Make the bank comfortable. Negotiate payments with other creditors; subordinate old debt; revamp your balance sheet.**
- **Ability to service debt is a key factor. Give the bank performance standards to track. Detail cash flow month by month.**
- **Restructure your loan, and spell out what you need. If you have to take less, reorient your plan to the lesser amount. Scale down sales, if need be, to take pressure off other parts of the business.**
- **Ask for forbearance, such as payment of interest only, or of principal only, for a 12-month period.**
- **Ask for forgiveness of part of the loan if, with lessened debt, company can survive. Remember, a banker would rather get 50¢ on the dollar than a dime.**

Samarro doesn't disagree. "Workout guys can be very difficult. But you have to understand their point of view. By the time a loan gets to workout, management has created a credibility gap: 'Sure, we're getting more sales; yes, we'll pay you this month.' Then they keep failing to deliver, and the bank gets disgusted."

If the business can't be rescued after all this, the CEO himself will likely need help paying off the bank, so that he doesn't get sued for personal guarantees. Even here there are techniques to wind down a business, says Samarro, such as getting on the phone and collecting payables, so that in the business's last gasps, cash trickle is channeled into paying down the loan.

What, at his asset-lending heart, is Samarro's *real* secret? "It's that no credit man wants to accept 10¢ on the dollar after writing 100," he admits. "The loan officer went on the line that the company's credit was good. Suddenly he has to go to his superiors and admit he made a mistake? You tell him, 'Yeah, it was a mistake—but here's how to get it back.' " □

GETTING TO KNOW YOU

How to get your people working like a team

BY JAMES E. BERNSTEIN, M.D.

How many times have you driven home at night with a gnawing feeling in the pit of your stomach because one of your key people is disgruntled for who-knows-what reason? And who among us hasn't spent endless hours fixing people's bruised egos or injured psyches after a harmless offhand remark has festered and done its damage?

Over the past 12 years, I have tried many different approaches to keeping people enthusiastic and energized by their work—and not in my office for repairs. About a year ago, a friend who is the chief executive officer of a rapidly growing company introduced me to a technique that I've found remarkably successful. It involves nothing more than formally structuring time so that you and other members of your team can discover what makes one another tick. It's amazing how one person's seemingly trivial actions can have such profoundly negative effects on someone else. Equally amazing is how people change their behavior once they're aware of one another's hot buttons.

To illustrate both the problem and the technique, I'm going to use a couple of real examples from my friend's company.

THE SYMPTOMS

Linda, the controller, left work depressed, demotivated, and upset. She had worked until past 3:00 a.m. three nights running, polishing up the company's forecasts—and the CEO had dressed her down for being a day late with the reports. Sure, she could have warned him that her analysis was a day behind, but he must have known how profoundly she cares about the company and how much she worries about meeting cash-flow projections. The next morning she dragged herself out of bed and drove to the office with a leaden feeling, turning over in her mind her letter of resignation.

How many times have you seen these mornings after? The problem is, you usually don't know what happened or why. All you know is that one of your employees seems down. And you hope whatever is bugging him or her will go away.

Bob sat stony-faced by the telephone, glaring at his watch. It was 10 minutes past three o'clock. The CEO had said he would call back at three. Bob had been at the company four months as executive vice-president, and everything had been going well. Now, he was uneasy. Wasn't his work any good? He had thought that he could trust the CEO. Now, he wasn't sure. After all, when you say three o'clock, that's three o'clock. When the phone rang shortly after four, Bob answered it in an icy, flat tone. He had a hard time discussing the major contract he was negotiating. He was furious and disappointed.

Again, how often have you been puzzled by a response? You haven't a clue as to what provoked it, and you get a twinge of anxiety, guilt, or anger depending on how the rest of the day has gone.

THE CURE

Most people, if asked, will freely tell you what propels them to new heights of achievement and what turns them into listless, enervated drones. And most people, if they know what moves and what slows their fellow workers, will make the effort to treat them with care. The trick is to make sure the exchange takes place. Here's what I've found works best.

Gather together a small group—it could be your managers, your board, or a work team, but should be no more than 10 people—for a meeting away from the office. Make sure that you take enough time for people to relax and let their hair down a bit. Provide refreshments, but require no advance work, no handouts, and no flip charts. You'll want people to volunteer—maybe you'll even go first—to answer the following questions with complete candor.

Why do you work here? What do you get out of your work? What are your aspirations?

What are the behaviors, actions, or circumstances that make you motivated, energized, and happy with your work?

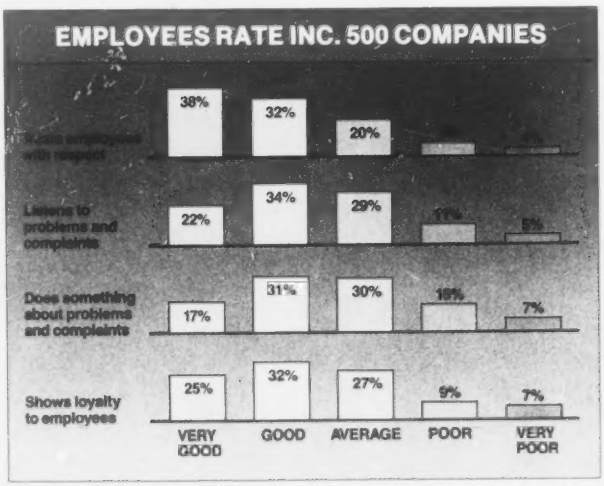
What are the things that people do that dampen your enthusiasm, that make you angry or depressed?

When faced with these questions, both Linda and Bob were frank.

Linda: "You know, for me it's very simple. I love this company. I think what it's doing is great. I think the people who work here are committed and really terrific to work with. That's why I work here. Nothing fancy or heavy about it. You want to know what turns me off—takes the wind out of my sails and leaves me dead in the water? Just doubt whether I care, or don't recognize how committed I am. When you chew me out for being late with something and imply I don't take my job seriously, I'm finished. I don't function for days after something like that. I can't give you something that isn't right. It might have serious consequences for the company I love. But if I get just an inkling that I'm appreciated, I'll work all night and still be smiling the next day."

From then on, everybody understood the key to keeping Linda on an even keel. When she was late, instead of doubting her commitment, the CEO made sure she knew how important getting a particular job done was to the company's success. And he found that a little praise went a long way.

Bob: "I came to work here because of the culture



Fast growth can be hard on employees. The ratings above are from our 1987 survey of INC. 500 employees.

DAVE HANNUM

BORROWING FROM YOUR COMPANY

. . . plus travel deductions, interest deductions, and a tax on retained earnings

BY IRVING L. BLACKMAN

COMPANY LOANS

Before you or other shareholders borrow from your company, you should realize that, from a tax standpoint, a whole list of rules comes into play.

One that can create a tax disaster has to do with below-market interest (BMI) loans, those that charge no interest or interest below the current market rate (CMR). The difference between the CMR interest and the BMI interest is called "forgone interest." Though it is a fiction, it is treated as a dividend to the shareholder, who is then considered to have paid the forgone interest back to the corporation.

Generally, the shareholder can deduct only 40% of this imputed interest in 1988 (see "Interest Deductions," right). And the corporation is stuck with interest income from the imputed interest and a nondeductible dividend from the foregone interest.

To avoid this problem, *make your loans at market rates*. But that's only rule number one.

Also, execute legally binding notes for all advances. Indicate the required interest rate on the face of all notes evidencing the loan. Specify the repayment dates and make payments when due with a personal check. Do not make offsetting book entries. Provide security, if possible. If loans are made to more than one shareholder, do not make the loans in proportion to the shareholders' interest in the corporation. Finally, enter the transaction on the corporate books as a note receivable from its inception and so state in the corporate minutes.

TRAVEL DEDUCTIONS

A rundown of post–tax-reform deductions for travel:

Business travel. Business trips are fully deductible (except expenses for meals and entertainment, which are 80% deductible). You can deduct the cost of your spouse's travel only if his or her presence has a real business purpose—such tasks as answering the phone or typing won't do. Examples of what works: if you jointly own the business, or if the trip is to a country where you spouse speaks the language and you don't.

Luxury water travel. Special rules apply to business travel by ship. You can deduct twice the highest daily allowance for U.S. travel by federal government employees, which is currently $126. That gives you a deduction of $252 per day. The 80% rule for meals and entertainment doesn't apply if these expenses are not itemized on your tab for the cruise.

Travel for education. If the cost of a business-education seminar is deductible, so is the cost of getting there and back. (Only costs of seminars relating to your trade or business are deductible, which excludes investment seminars.)

Travel for charity. You can claim a charitable deduction for the cost of traveling on behalf of a charitable organization. But the deduction is barred if the trip involves a significant element of personal pleasure, recreation, or vacation. If a trip qualifies, all related costs are deductible, including 100% of your meals.

Travel for medical reasons. You can deduct the cost of travel for medical reasons, but only if your medical expense deductions exceed 7.5% of your adjusted gross income. When a patient is too young or too ill to travel alone, the cost of a traveling companion is deductible. Meals are not deductible, and lodging expenses, if essential to receiving medical treatment, are limited to $50 per night.

Source: Internal Revenue Service Document 6011, revised 5-88. Data based on 1986 survey

INTEREST DEDUCTIONS

Here's a summary of what you can deduct:

Business interest. You can deduct 100% of interest on business debt.

Mortgage interest. The interest on mortgage loans of up to $1 million and an additional $100,000 of home equity loans is fully deductible. Interest on debt greater than these amounts is considered consumer interest (see below).

Investment interest. This is the interest you pay to carry investments, such as interest on a margin account to carry stock and bond investments. You can deduct the investment interest, but only up to the amount of your investment income, which includes dividend and interest income and profits on the sale of securities. Investment interest deductions are being phased out, as follows: 40% can be deducted this year; 20% for 1989; 10% for 1990; and 0% for 1991 and later.

Consumer interest. Interest that does not fit into one of the above categories is considered consumer interest, and includes such items as interest paid on a student loan, an insurance loan, credit card balances, or to the IRS. Consumer interest is being phased out at the same rate as investment interest (see above).

A SUCCESS TAX

The IRS frowns on closely held corporations that it suspects are being used to prevent income from flowing to shareholders as dividends, which brings us to the Accumulated Earnings Tax.

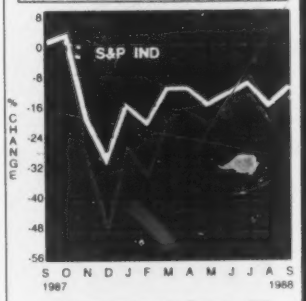
If your corporation has "unreasonable" accumulated earnings, the penalty tax is 27.5% on the first $100,000 over $250,000 and 38.5% on the remainder, in addition to the regular corporate income tax.

What's unreasonable? Every corporation is allowed accumulated earnings of $250,000 ($150,000 for personal-service corporations). Even if you're over this allowable minimum, you still may get out of the tax if you can show that the earnings were accumulated for reasonable business needs. Like many areas of the tax law, the answer turns on the particular facts and circumstances of each case.

Irving L. Blackman, specializing in closely held businesses at Chicago-based Blackman Kallick Bartelstein, certified public accountants, speaks and writes on tax issues.

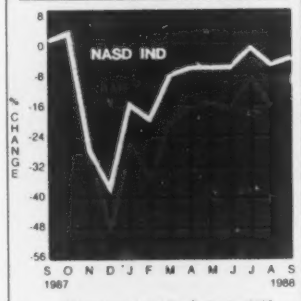
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



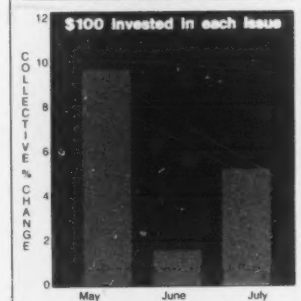
All averages start at 0 in September 1987

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in September 1987

IPOs IN THE AFTERMARKET



To September 15, 1988

INITIAL PUBLIC OFFERINGS: AUGUST 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
AOF[a]	ACM Government Opportunity Fund	Real-estate investment trust	115.00	10.00	10	Shearson Lehman
ACI[a]	Ashland Coal	Coal mining	40.62	11.00[c]	10¾	Merrill Lynch
AUIN	Automotive Industries	Acquires car service cos.	7.50	2.50	2½	F. N. Wolf
BMCS	BMC Software	Dvlps. software	27.00	9.00	8⅝	Alex. Brown
BHO[b]	B&H Ocean Carriers Ltd.	Owns & operates bulk carriers	60.00	15.00	14¾	Merrill Lynch
LPTVU	Channel America LPTV	Owns & operates TV stations	3.00	6.25[d]	6½	Hibbard Brown
CFED	Charter Federal Savings Bank	Savings bank	3.75	10.25	10½	Ryan, Beck
HIS[a]	Cigna High Income	Closed-end fund	100.00	10.00	10	Merrill Lynch
ECGI	Environmental Control Group	Provides asbestos-abatement svcs.	16.31	11.25	11⅜	Alex. Brown
FFFC[a]	Franklin First Financial	Bank holding co.	27.94	8.50	8½	Drexel Burnham
FALI	Fund Alabama	Investment management	7.00	10.00	10	Sterne, Agee
GLI[a]	Global Income Plus	Closed-end fund	210.00	10.00	10	Paine Webber
YLT[a]	High Income Advantage	Closed-end fund	200.00	10.00	10	Dean Witter
HPBC	Home Port Bancorp	Bank	5.26	8.00	8	Merrill Lynch
IHHIU	In Home Health	Provides home health care	1.88	1.25[e]	1⅜	L'Argent Securities
IGF[a]	India Growth Fund	Closed-end fund	60.00	12.00	11¾	Merrill Lynch
KILE	Kile Technology	Designs & mfrs. transformers	2.60	3.50	3¾	Apple Financial
KIND	Kinder-Care Learning	Operates day-care centers	42.00	7.00	7	Alex. Brown
KE[b]	Koger Equity	Real-estate investment trust	160.00	20.00	20	Dean Witter
LICF	Long Island City Financial	Savings & loan	8.11	12.00	14	Merrill Lynch
MFFC	Mayflower Financial	Savings & loan	2.25	7.50	8½	Ryan, Beck
NERX	NeoRx	Dvlps. pharms.	17.50	7.00	7¼	Kidder Peabody
NVLS	Novellus Systems	Mfrs. vapor-distr. systs.	15.20	8.00	8¼	Bear Stearns
RIF[b]	Real Estate Securities Income Fund	Closed-end fund	24.00	10.00	10	Drexel Burnham
RNX[a]	Rexene	Mfrs. & mkts. thermoplastics	129.00	21.50	22⅛	First Boston
HAMS	Smithfield Companies	Produces & mkts. food products	5.96	9.50	9½	Investment Corp. of Virginia
STOT	Stotler Group	Brokerage firm	4.95	11.00	10½	R. G. Dickinson
SNPX	SynOptics Communications	Designs, mfrs., & mkts. computer networks	20.25	13.50	14½	Morgan Stanley
TIS[a]	TIS Mortgage Investment	Closed-end fund	76.00	10.00	10	Prudential-Bache
UTRX	Unitronix	Distr. & mkts. computer equip.	3.50	5.00	5⅜	Gilford Securities
VMT[a]	Van Kampen Merritt Municipal Income Trust	Closed-end investment co.	240.00	10.00	10	Prudential-Bache

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on NYSE, [b] trading on AMEX, [c] an additional 923,100 shares were offered overseas, [d] units of 4 common + 2 warrants, [e] units of 1 common + 1 warrant. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York NY 10038.

CHARTS: IMAGEBUILDER DESIGN

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